AMENDED IN ASSEMBLY JANUARY 6, 2004

CALIFORNIA LEGISLATURE—2003–04 REGULAR SESSION

ASSEMBLY BILL No. 489

Introduced by Assembly Member Oropeza

February 14, 2003

An act *to amend Section 379.5 of the Public Utilities Code,* relating to energy resources.

LEGISLATIVE COUNSEL'S DIGEST

AB 489, as amended, Oropeza. ~~Distributed~~ *Energy resources: distributed* generation: flared gas*: oil producers.*

Existing law requires the Public Utilities Commission, in consultation with the Independent System Operator and the State Energy Resources Conservation and Development Commission, to adopt initiatives, on or before March 7, 2001, to reduce demand for electricity and reduce load during peak demand periods, including differential incentives for renewable or super clean distributed generation resources.

This bill would make a legislative finding and declaration regarding that existing law. The bill would further find and declare that is in the interest of this state *to maximize the use of in-state produced natural gas and* to encourage the development of self-generation resources that result in a net air quality benefit from oil production operations that utilize flared gas.

The bill would delete the March 7, 2001, deadline, and would provide that differential incentives for renewable or super clean distributed generation resources include fuel cells and microturbines operating on renewable energy.

The bill would also provide that fuel cells and microturbines operating on wasted gas, as defined, are also eligible for incentives under the level 3 incentive category established by the commission in an amount totaling $2.50 per watt, upon demonstration that operation of the system will produce a net air quality benefit. The bill would require the commission to require a customer receiving the incentive to secure an interconnection agreement to operate solely on the wasted gas.

Vote: majority. Appropriation: no. Fiscal committee: ~~no~~ *yes.* State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. The Legislature finds and declares the following:

(a) Existing law requires the Public Utilities Commission, in consultation with the Independent System Operator and the State Energy Resources Conservation and Development Commission, to adopt initiatives, on or before March 7, 2001, to reduce demand for electricity and reduce load during peak demand periods, including differential incentives for renewable or super clean distributed generation resources.

(b) It is in the interest of this state *to maximize the use of in-state produced natural gas and* to encourage the development of self-generation resources that result in a net air quality benefit from oil production operations that utilize flared gas.

SEC. 2. Section 379.5 of the Public Utilities Code is amended to read:

379.5. Notwithstanding any other provision of law, ~~on or before March 7, 2001,~~ the commission, in consultation with the Independent System Operator, shall take all of the following actions, and shall include the reasonable costs involved in taking those actions in the distribution revenue requirements of utilities regulated by the commission, as appropriate:

(a) (1) Identify and undertake those actions necessary to reduce or remove constraints on the state's existing electrical transmission and distribution system, including, but not limited to, reconductoring of transmission lines, the addition of capacitors to increase voltage, the reinforcement of existing transmission capacity, and the installation of new transformer banks. The

commission shall, in consultation with the Independent System Operator, give first priority to those geographical regions where congestion reduces or impedes electrical transmission and supply.

(2) Consistent with the existing statutory authority of the commission, afford electrical corporations a reasonable opportunity to fully recover costs it determines are reasonable and prudent to plan, finance, construct, operate, and maintain any facilities under its jurisdiction required by this section.

(b) In consultation with the State Energy Resources Conservation and Development Commission, adopt energy conservation demand-side management and other initiatives in order to reduce demand for electricity and reduce load during peak demand periods. Those initiatives shall include, but not be limited to, all of the following:

(1) Expansion and acceleration of residential and commercial weatherization programs.

(2) Expansion and acceleration of programs to inspect and improve the operating efficiency of heating, ventilation, and air-conditioning equipment in new and existing buildings, to ensure that these systems achieve the maximum feasible cost-effective energy efficiency.

(3) Expansion and acceleration of programs to improve energy efficiency in new buildings, in order to achieve the maximum feasible reductions in uneconomic energy and peak electricity consumption.

(4) Incentives to equip commercial buildings with the capacity to automatically shut down or dim nonessential lighting and incrementally raise thermostats during a peak electricity demand period.

(5) Evaluation of installing local infrastructure to link temperature setback thermostats to real-time price signals.

(6) Incentives for load control and distributed generation to be paid for enhancing reliability.

(7) *(A)* Differential incentives for renewable or super clean distributed generation resources pursuant to Section 379.6. *"Super clean distributed generation resources" includes, but is not limited to, fuel cells and microturbines operating on renewable energy.*

(B) Fuel cells and microturbines operating on wasted gas shall also be eligible for incentives under the level 3 incentive category

as established by the commission in Decision 01-03-073, dated March 27, 2001. All of the existing level 3 criteria shall apply to a fuel cell or microturbine that will operate on wasted gas, except that the system need not utilize waste heat recovery, and shall be eligible for an incentive totaling two dollars and fifty cents ($2.50) per watt upon demonstration that operation of the system will produce a net air quality benefit. "Wasted gas" includes gases generated as a byproduct of petroleum production operations that would otherwise be stranded or not utilized due to the unavailability of an acceptable disposal method, or gas not utilized due to other constraints.

(C) The commission shall require a customer that receives an incentive for a fuel cell or a microturbine that will operate on wasted gas to secure an interconnection agreement that specifies that the fuel cell or microturbine shall be operated solely on wasted gas and not on gas that would otherwise be eligible for delivery to the utility pipeline system. An incentive awarded for a system that is eligible because it will operate on wasted gas shall be subject to refund and shall be refunded by the recipient to the extent the system does not operate on wasted gas. A gas corporation or other gas supplier shall report to the commission any deliveries of gas for a system that has been awarded an incentive because it will operate on wasted gas.

(8) Reevaluation of all efficiency cost-effectiveness tests in light of increases in wholesale electricity costs and of natural gas costs to explicitly include the system value of reduced load on reducing market clearing prices and volatility.

(c) In consultation with the *State* Energy Resources Conservation and Development Commission, adopt and implement a residential, commercial, and industrial peak reduction program that encourages electric customers to reduce electricity consumption during peak power periods.

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